ANNUAL REPORT 2004

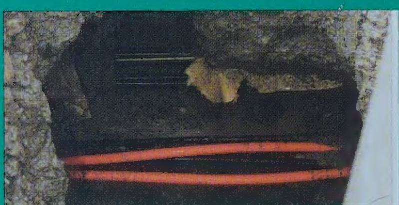
BADGER
INCOME FUND

Safety

It's what we do.
It's what we deliver.

Safety

It's what we do.



What is Daylighting?

Daylighting is the uncovering and exposing of underground utilities and pipelines to the daylight. The Badger Hydrovac system is a non-destructive method of excavating. It uses pressurized water and a vacuum system to safely excavate around utilities and pipelines.

The Process

Badger's Hydrovac system is a unique combination of systems – water, pressure and vacuum – combined in one self-contained, mobile unit. Water is pressurized and injected into the ground through a handheld wand to safely break up the soil from underground infrastructure. The resulting slurry is simultaneously vacuumed from the excavation through a large debris hose and temporarily stored in a debris tank.

Why is It Used?

This non-destructive type of excavation is recognized as a best practice when working in areas with underground utility congestion and frozen ground. The Badger Hydrovac virtually eliminates any chance of damaging utilities, which may often be inaccurately located and marked on the surface. All aspects of Badger's service and equipment are designed to enhance safety on the jobsite, increase productivity and raise the level of customer service.

Core Competencies

Badger has many strengths which provide a sustainable competitive advantage and create value for our customers. These core competencies are daylighting expertise, technology and truck development, distribution and market development and fleet management.

Contents:

Business Model

Badger's business model provides for excavating services through two distinct entities: the Operating Partners (franchises in the United States and agents in Canada) and Badger Corporate.

Operating Partners

The Operating Partners deliver the service by operating the equipment and developing their local markets. All work is invoiced by Badger Corporate and then shared with the Operating Partners based upon a revenue-sharing formula.

Badger Corporate

Badger Corporate works with its Operating Partners to provide hydrovac service to the end-user. Badger Corporate provides the expertise, the trucks, and North American marketing and administration support.

An Effective Business Model

Utilizes strength of both parties through the local aspect of the Operating Partner and the global focus of Badger Corporate.

It's what we deliver.

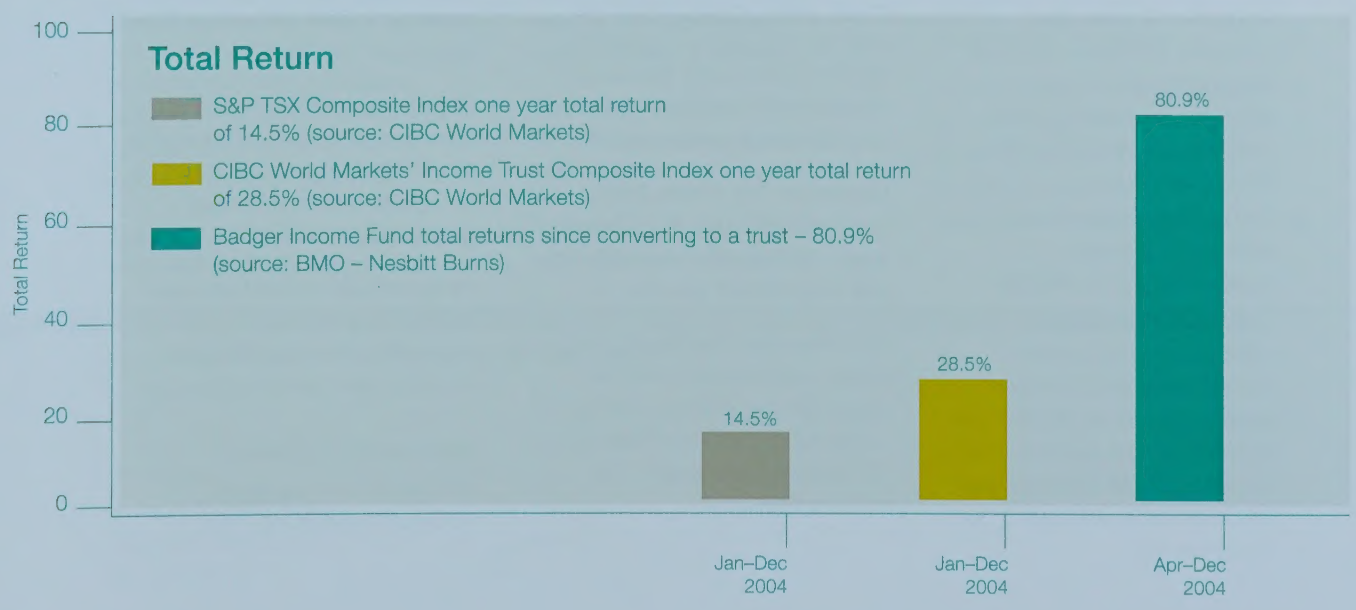
Badger is North America's largest provider of non-destructive excavating services. Badger traditionally works for contractors and facility owners in the utility and petroleum sectors.

What we deliver to our customers

- Virtually eliminates the risk of damaging underground infrastructure.
- Much faster than hand excavation.
- Often saves time, which increases efficiency of jobsite and saves money.
- Safely and productively digs in remote or sensitive areas.
- Provides year-round excavation even in frozen ground.

What we deliver to our investors

- Cash distribution potential every month.
- Capital appreciation of units with growth.



Management's Letter

Left: Greg Kelly, CA, Vice President Finance and CFO
Right: Tor Wilson, President and CEO

2004 was a rewarding year for Badger Income Fund and all stakeholders. Our focus on improving our business every day and executing our plans has allowed us to grow and provide a competitive return to our unitholders. We completed the conversion to a business trust in 2004, which was well received in the investment market.

Highlights of the period included:

1. Badger continued to advance in the Canadian market place. In 2004 we were fortunate to operate in a climate of strong oil and natural gas drilling activity plus an improved economy. During the period Badger improved its geographic reach in Canada – one of our key regional goals for the period. Since Badger's inception 13 years ago, Canadian hydrovac revenues have grown each year, reflecting the growth of the market place and vital nature of the business.
2. United States operations achieved a dramatic improvement in profitability. Our focused strategy of concentrating on certain market areas and business segments paid off in 2004. We secured several projects that helped increase hydrovac fleet utilization while expanding our customer list.
3. On April 1, 2004 Badger converted to an income trust. The conversion was completed in an efficient and timely manner. The announced and executed conservative distribution policy provided a reasonable return to unitholders plus allowed Badger to grow by adding new units to the fleet.

2004 Goals and Results

In last year's annual report we outlined our plan and goals for 2004. The following discussion provides an overview of our targets versus performance.

Objective: The United States business will move from "break-even – stabilization" mentality to one of controlled growth.

Performance: Badger's United States operations generated strong returns in 2004. We added 12 hydrovac units and expanded our geographical reach. This focus continues.

Objective: Continue to grow the Canadian business.

Performance: We successfully expanded our geographical reach and added 15 hydrovac units. We believe there is room for further growth in Canada.

Objective: Maintain a fleet average monthly revenue target of $25,000 per truck.

Performance: At $25,000 revenue per truck per month Badger's business model works well. This metric is a very important indicator of the performance of Badger's business. In 2004 our fleet average was $28,000 per truck per month, above our stated objective.

Objective: Continue to focus on core competencies and business processes that will help maintain or increase our competitive advantage.

Performance: In 2004 we were successful in making improvements to our Badger hydrovac and territory coverage.

2005 Market Outlook

Badger divides the North American market into four

areas: Western Canada, Eastern Canada, United States West and United States East. These areas are distinct in the type of industries they have as well as market characteristics. Each market is in a different stage of development for hydrovac services.

Western Canada: Badger launched its business in Western Canada 13 years ago and today the region represents the Fund's most established market area. Badger's main focus in the region is the oil and natural gas industry, which is expected to remain active in 2005, with strong commodity prices and record drilling. Badger will focus on extending its market coverage in this region in 2005.

Eastern Canada: The main businesses in this region include utilities and general construction. In 2004 Badger focused on expanding coverage of the territory and market segments. We believe these efforts will pay off in 2005 with increased revenue.

Western United States: In 2004 Badger was successful in focusing limited resources on specific industries and geographic areas. We will build on this success and start to expand geographical coverage in 2005. Badger units will be added to existing and new franchises.

Eastern United States: Badger achieved improvements in this region in 2004. We attracted significant local contracts and won larger projects which helped add customers and expand revenues. The goal for 2005 remains the same. We will strive to expand from key locations by adding franchises in areas with strong prospects. The Eastern United States has been a challenge for Badger in prior years.

Badger's 2005 Goals

Objective: Continue growing the Canadian business.

Explanation: We continue to find new applications and new customers for our hydrovac services which in turn lead to expanded markets. We are convinced there is room to grow revenues in Canada.

Objective: Build on the initial success we had in 2004 in the United States, expand our customer base and extend our market coverage in a controlled manner.

Explanation: This objective is a continuation of our 2004 performance. We will continue to develop strong local markets first before attempting to expand outward by finding new customers and franchises.

Objective: Maintain or surpass a $25,000 per truck per month fleet average.

Explanation: Revenue per truck per month is one of our key indicators. At this utilization level we know that our business model is effective. If revenues are higher than the target, we continue to build trucks. If revenue is lower, we build fewer trucks.

Objective: Continue to focus on core competencies and business processes that will help maintain and increase our competitive advantage.

Explanation: This is Badger's constant goal. We will continue to look at ways to improve the efficiency of our hydrovac units and Badger's business processes in 2005.

Conclusion

We are very satisfied with our 2004 performance. Badger successfully converted to a trust and continued to grow. If we continue to enjoy a strong economy and a robust oil and natural gas industry, Badger will continue to advance and prosper in 2005. All market regions are now contributing to operating profits and this is expected to continue in 2005. Our distribution policy remains conservative which allows us to share success with our unitholders, while using a portion of our financial resources to grow the business.

I congratulate our employees on a job well done. At the same time, I extend sincere thanks to our Board of Directors for their contribution over the years.

On behalf of the Board of Directors and Management:

Tor Wilson
President and CEO
Badger Income Fund
March 8, 2005

Greg Kelly, CA
Vice President Finance and CFO

Badger converted to a fund in April 2004.

A closer look at Badger as an Income Fund

1 As an industrial service company we work in many industries

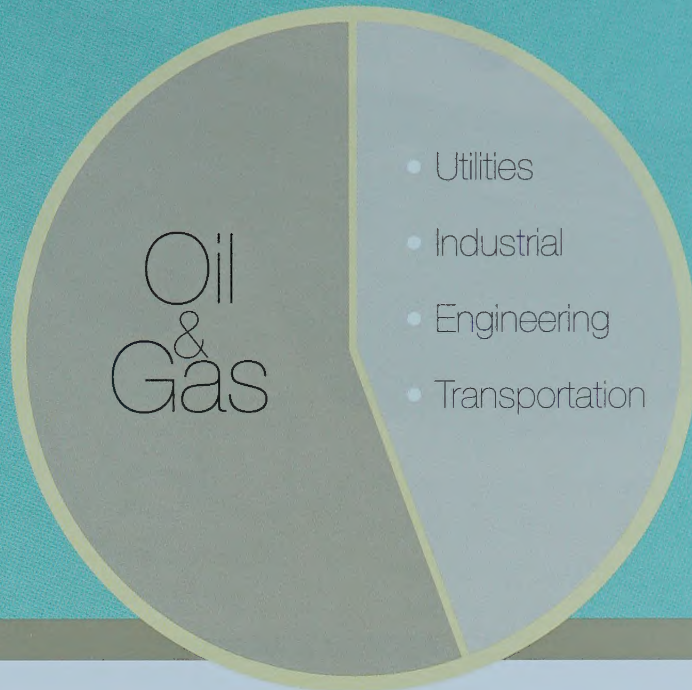
The Badger hydrovac process can be used in any situation where sensitive excavation is required. Badger does not exclusively work in one industry. If one segment is slow our service can easily work in other markets. This allows Badger flexibility to maintain a more consistent revenue stream.

2 Our fleet is mobile

Badger units are mobile. If one area slows down for any reason the units can be re-allocated to other areas with more potential. This often occurs during the winter season where some trucks are moved to colder climates where the demand is usually higher with frozen ground.

Our Customer Base

Multiple industrial sectors depend on Badger. Badger can add value anywhere excavation is required in sensitive sites, remote locations or where there is buried infrastructure.



3 Daylighting is an essential service

Badger is the North American leader in providing non-destructive daylighting service. This industry-leading position offers several advantages to Badger.

4 We are financially strong

Badger has a low level of debt and is currently able to finance the majority of growth through cash flow.

5 Our payout ratio is conservative

Badger uses its cash flow to fund ongoing operations, build new units (growth and maintenance capital expenditures), pay distributions and make principal debt payments. Our conservative payout ratio should allow Badger to finance expected growth while sustaining distributions. Good operational performance in 2004 allowed the Fund to increase distributions each quarter plus grant a special distribution at year end.

Daylighting is the uncovering and exposing of underground utilities and pipelines to the daylight. It is a safe, efficient and non-destructive method of excavating.

A closer look at Daylighting

Our Value Proposition

1 Safety

Badger's work practices incorporate the most stringent safety standards. Crews work safely around any type of utility, including energized cables. Badger works with many of the major oil and gas companies plus large utilities.

2 Productivity

The Badger hydrovac truck has many features to enhance safety and improve productivity. The unit out-performs other types of vacuum excavators while staying within safe operating limits.

3 Efficiency & Cost Savings

Our trucks surpass the productivity of trailer units, industrial cleaning units or sewer flushing trucks, and can deliver the highest excavating efficiency.

4 All-season versatility

Badger Hydrovacs have been designed for extreme winter conditions and any depth of ground frost. All key components are protected and heated and a coiled heater produces hot water on demand.

5 Badger's Network

Badger has the largest hydrovac fleet available in the United States and Canada on a 24/7 basis. Badger's toll-free, central dispatch delivers a well coordinated effort on every job.

Field Applications

Daylighting/Potholing
- Visual confirmation of buried lines
- Service and splice pits
- Directional drilling test holes
- Cathodic anode installation
- Pipeline and utility crossings
- Subsurface Utility Engineering (S.U.E.)

Slot Trenching
- Pipeline tie-ins
- Investigative slot trenching
- Installation slot trenching
- Drain tile trenching
- Line fault repairs

Pits
- Maintenance pits
- Installation service pits

Debris Removal/Cleanouts
- Road and box culvert cleanouts
- Pipe-rammed casing cleanouts
- Material removal from inside structures and buildings

Pole/Piling Holes
- Utility poles, traffic signals, light standards and sign posts
- Pole removals and replacements
- End-bearing piles
- Pilot holes for friction piles
- Spread footing piles
- Well monitor installations

Shoring
- Shoring shields and cages
- Minimal ground disturbance
- Maintains ground integrity
- Installation in limited access sites
- Prevents sloughing and cave-ins
- Lower restoration costs
- Safe access to buried infrastructure

DAYLIGHTING POTHOLING

SLOT TRENCHING

PITS

DEBRIS REMOVAL/CLEANOUTS

POLE/PILING

SHORING

6 Clean, Precise, Professional

The Badger hydrovac can excavate quickly while leaving a clean hole, which requires less restoration. Our managers devise the most appropriate solutions for any project or location.

7 Remote Excavating

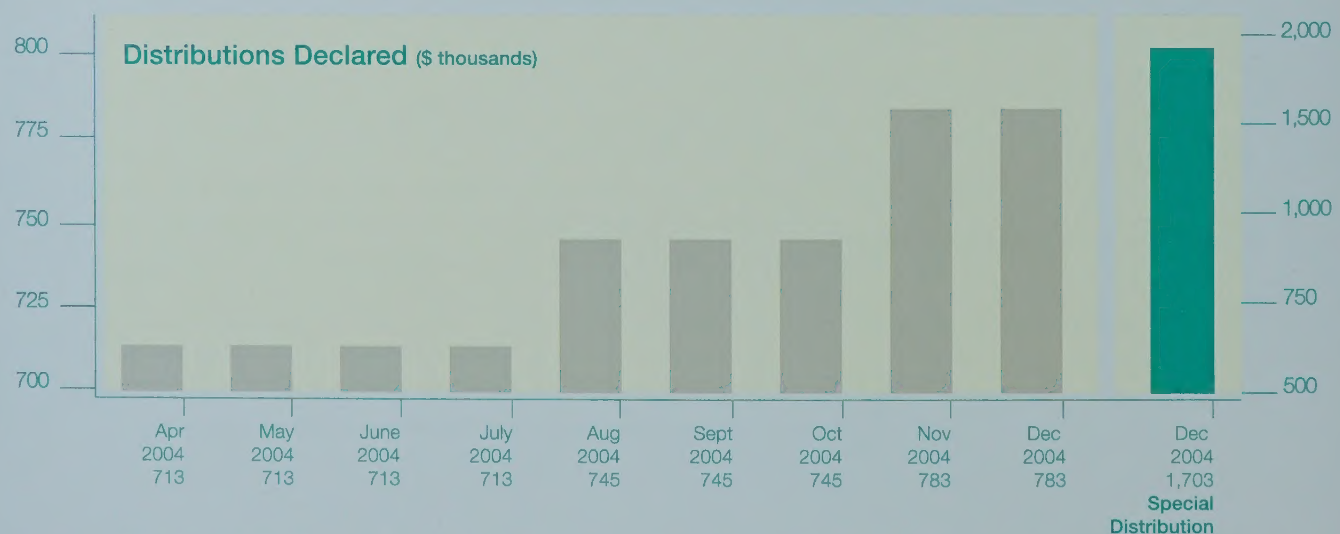
Badger hydrovacs are also capable of excavating at distances over 400 feet from the truck, enabling crews to work in areas with limited access.

8 Outsourcing

It makes economic sense for construction companies to outsource hydrovac projects. Badger hires and trains the operators and builds and maintains the equipment.

Financial Highlights

Since converting to a Trust in April 2004, Badger's unit price increased from $10.10 to $17.40 on December 30, 2004.

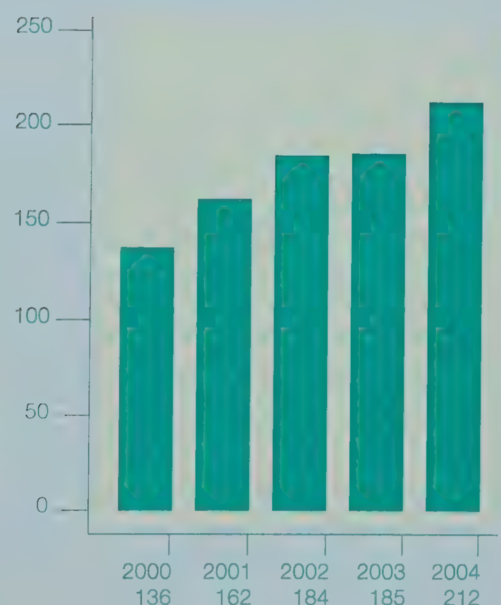


Note: Total distributions declared for period from April 1, 2004 to December 31, 2004 – $8,356,386.

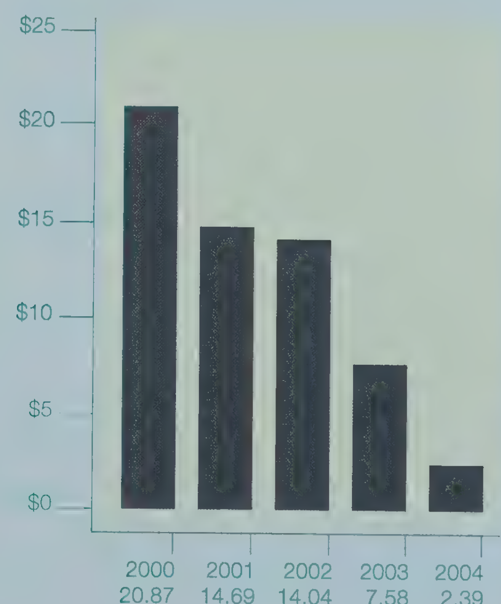
Canadian Daylighting Revenues (CDN$ millions)

U.S. Daylighting Revenues (CDN$ millions)

Hydrovac Units



Long-term Debt (CDN$ millions)
(including current portion)



Management's Discussion & Analysis

The following MD&A should be read in conjunction with the consolidated financial statements of Badger Income Fund (the Fund or Badger) and related notes and material contained in other parts of this annual report. Readers should also refer to the Badger Information Circular dated February 18, 2004 and the Annual Information Form for the period ended December 31, 2004. Additional information relating to Badger, including the Fund's Annual Information Form, may be found on SEDAR at www.sedar.com.

The Fund commenced operations on March 31, 2004. However, to provide unitholders meaningful information and an annual comparison, the MD&A and consolidated financial statements deal with the period December 1, 2003 to December 31, 2004. The accounts for Badger Daylighting Inc. are included for the period December 1, 2003 to March 31, 2004, on a continuity-of-interest basis as if the Fund had existed at the beginning of the period. The comparative information for the entire period of December 1, 2002 to November 30, 2003 is for Badger Daylighting Inc.

As a result of converting to a trust, the year-end was changed from November 30, 2004 to December 31, 2004; therefore, the following MD&A compares the thirteen-month period ended December 31, 2004 to the year ended November 30, 2003.

This MD&A has been prepared taking into consideration information available to March 8, 2005.

Forward-Looking Statements

Certain statements contained in the annual report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or Badger's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Other factors include, but are not limited to, fluctuations in the market for oil and natural gas and related products and services; political and economic conditions; the demand for services provided by the Fund; industry competition and Badger's ability to attract and retain key personnel. The Fund believes that the expectations reflected in these forward-looking statements are reasonable; however, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual report should not be relied upon. In addition, these forward-looking statements relate to the date on which they are made. Badger disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Highlights

($ thousands, except per unit and total units outstanding information)

	Three Months Ended December 31 2004	Three Months Ended November 2003	**Thirteen Months Ended December 31 2004**	Year Ended November 30 2003
Revenues	**20,488**	18,391	**78,697**	63,687
Net earnings	**3,854**	1,884	**13,712**	3,979
Net earnings per unit – diluted (3)	**0.36**	0.18	**1.30**	0.39
EBITDA (1)	**5,724**	4,323	**22,242**	13,735
Cash flow from operations (2)	**5,801**	4,855	**20,685**	12,051
Cash flow per unit – diluted (3)	**0.54**	0.48	**1.97**	1.18
Maintenance capital expenditures (4)	**829**	1,333	**2,730**	2,423
Required debt repayment (5)	**698**	884	**4,375**	4,359
Additional debt repayment (5)	**–**	2,100	**814**	2,100
Cash available for growth and distribution (6)	**4,400**	2,791	**13,861**	5,776
Cash distributions declared	**4,014**	–	**8,356**	–
Growth capital expenditures (4)	**1,994**	321	**9,182**	321
Total units outstanding (3)	**10,648,879**	10,085,639	**10,648,879**	10,085,639

Excluding net earnings per unit, cash flow per unit and total units outstanding, the following measures do not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies or trusts:

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is provided to assist investors in determining the ability of the Fund to generate cash from operations and is calculated from the consolidated statement of earnings and accumulated earnings as gross margin, less selling, general and administrative costs, trust reorganization charges and foreign exchange loss.

(2) Cash flow from operations is calculated from the consolidated statement of cash flows as net earnings adjusted for non cash items charged to the consolidated statement of earnings and accumulated earnings.

(3) For comparative purposes the weighted average shares outstanding in 2003 have been converted to units on a 2:1 basis; therefore per unit calculations have been restated on this basis.

(4) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred on a daylighting unit to enhance its operational life. This amount will fluctuate from period-to-period depending on the number of units retired from the fleet. During the three-month period ended December 31, 2004, Badger added ten units to the fleet and removed three from service. As a result, seven of the units added during the three months ended December 31, 2004 represented growth capital expenditures, while three of the units represent maintenance capital expenditures. During the thirteen-month period ended December 31, 2004 Badger added 34 units to the fleet, of which seven have been reflected as maintenance capital expenditures. The economic life of a Badger hydrovac is approximately 10 years. The average age of the fleet is just under four years.

(5) Required debt repayments are defined as the amount of debt which had to be repaid during the period pursuant to regularly scheduled debt repayments. Additional debt repayments represent accelerated payments of debt that were not required to be made during the period.

(6) Cash available for growth and distribution represents cash flow from operations as per the statement of consolidated cash flows, less required debt repayments and maintenance capital expenditures, plus any proceeds received on the disposal of assets.

Overview

Highlights for the period are as follows:

- Effective March 31, 2004 Badger Daylighting Inc. converted into an income trust. The conversion was done efficiently with total costs of the conversion amounting to $0.3 million. In April 2004 the Fund declared initial monthly distributions of $0.067 per unit. As a result of strong financial performance, the Fund increased its monthly distributions to $0.07 in August 2004 and to $0.0735 per unit in November 2004, as well as declaring a special distribution of $0.16 per unit in December 2004, which was paid out in January 2005.
- The Fund generated significantly improved operating and financial results during the thirteen months ended December 31, 2004. Revenues increased from $63.7 million for the year ended November 30, 2003 to $78.7 for the thirteen months ended December 31, 2004. EBITDA was $22.2 for the thirteen months ended December 31, 2004 compared to $13.7 million for the year ended November 30, 2003.
- Our United States' business strengthened with revenues and EBITDA increasing by $5.5 million and $3.6 million respectively, comparing the thirteen month period ended December 31, 2004 to the year ended November 30, 2003.
- High levels of activity in the utilities and energy sectors, plus expanded services areas, resulted in higher utilization of Badger's hydrovac units.
- The Fund added 34 new hydrovac units during the thirteen months ended December 31, 2004 and removed seven from service. At December 31, 2004 Badger had 212 units.

Selected Annual Financial Information

Periods Ended	**2004 (1)**	2003 (1)	2002 (1)
Revenues ($)	**78,696,706**	63,686,858	50,084,908
Net earnings ($)	**13,711,874**	3,979,346	584,918
Net earnings per unit – basic (2) ($)	**1.31**	0.40	0.06
Net earnings per unit – diluted (2) ($)	**1.30**	0.39	0.06
Total assets ($)	**67,751,424**	59,815,382	60,000,972
Total long-term debt (3) ($)	**2,388,801**	7,577,329	14,036,599
Distributions declared ($)	**8,356,386**	Nil	Nil

(1) The 2004 period reflects results for the thirteen months ended December 31, 2004, while the 2003 and 2002 periods reflect results for the year ended November 30.

(2) For comparative purposes the weighted average shares outstanding for 2003 and 2002 have been converted to units on a 2:1 basis; therefore per unit calculations have been restated on this basis.

(3) Includes the current portion of long-term debt.

Results of Operations

For the thirteen months ended December 31, 2004 compared to the year ended November 30, 2003.

Revenues

Revenues were $78.7 million for the thirteen months ended December 31, 2004 compared to $63.7 million for the year ended November 30, 2003. The increase is attributable to the following:

- The increase in United States' revenues from $11.5 million for the year ended November 30, 2003 to $17.0 million for the thirteen month period ended December 31, 2004. The improvement reflects the Fund's continued focus on certain geographical areas and market segments resulting in an increased customer base and added demand for hydrovac services. Badger also secured work on some larger projects.
- Continued high prices for crude oil and natural gas led to aggressive drilling activity by exploration and production companies, expansion of existing plants and processing facilities and new project spending in the Western Canada Sedimentary Basin. The result was increased demand for Badger's hydrovac services in Western Canada. In Eastern Canada our expanded customer base and increased spending on construction projects led to higher revenues.
- Badger's average revenue per truck per month during the three months ended December 31, 2004 was $30,600 versus $31,400 per month for the three months ended November 30, 2003. This brings the period-to-date average revenue per truck per month to $28,000 for the thirteen months ended December 31, 2004 versus $27,200 for the year ended November 30, 2003.

Included in revenues is $2.1 million of truck placement and franchise fees for the thirteen month period ended December 31, 2004 versus $1.0 million for the year ended November 30, 2003.

Direct Costs

Direct costs were $50.0 million for the thirteen months ended December 31, 2004, an increase of $6.6 million over the year ended November 30, 2003 figure of $43.4 million.

Gross Margin

Gross margin was 36 percent for the thirteen month period ended December 31, 2004 versus 32 percent for the year ended November 30, 2003. The increased gross margin percentage is mainly due to increased truck utilization.

Amortization of Capital Assets

Amortization of capital assets was $6.8 million for the thirteen month period ended December 31, 2004, or $0.8 million higher than the $6.0 million for the year ended November 30, 2003. This increase was the result of having more hydrovac units in the fleet.

Interest Expense

Interest expense was $0.4 million for the period ended December 31, 2004 versus $0.9 million for the year ended November 30, 2003. The lower interest expense resulted from carrying lower debt levels.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6.1 million for the period ended December 31, 2004 compared to $6.0 million for the year ended November 30, 2003. The increase comparing a thirteen month period to a twelve month period is insignificant, which reflects the Fund's continued focus on cost control.

Selling, general and administrative expenses include salaries and benefits for office, field, safety and sales staff, as well as rent, utilities and communications. These expenses also include costs to maintain the Fund's public listing and professional fees.

Foreign Exchange Loss

The loss results from converting the United States' balance sheet and earnings statement into Canadian currency.

The foreign exchange loss was due to the strengthening of the Canadian dollar against the U.S. dollar.

Income Taxes

Badger recorded an income tax expense of $2.6 million for fiscal 2003 resulting in an effective tax rate of 39 percent. The minimal effective tax rate of nine percent for the thirteen months ended December 31, 2004 was due to the conversion to a trust structure effective March 31, 2004. This resulted in tax deductible distributions being made for the period from April 1, 2004 to December 31, 2004.

Liquidity

Cash flow from operations was $20.7 million for the period ended December 31, 2004 versus $12.0 million for the year ended November 30, 2003. Increased activity levels in Canada and the United States was the reason for the increase. The Fund uses its cash to make distributions to unitholders, invest in expanding the hydrovac fleet, maintenance capital expenditures and long-term debt repayment.

The Fund had working capital of $7.3 million at December 31, 2004 compared to $6.5 million at November 30, 2003. Cash flow from operations exceeded capital expenditures, repayment of debt (net of proceeds received) and distributions paid during the thirteen months ended December 31, 2004.

The following table outlines the cash available to fund growth and pay distributions to unitholders since converting to a trust for the three and nine month periods ended December 31, 2004.

	Three Months Ended December 31, 2004 $	Nine Months Ended December 31, 2004 $
Cash flow from operations	5,801,126	15,851,475
Add: proceeds on disposal of capital assets	126,540	221,527
Less: required repayments of long-term debt	(698,310)	(3,083,374)
Less: maintenance capital expenditures	(828,890)	(2,729,950)
Cash available for growth capital expenditures and distributions	4,400,466	10,259,678
Growth capital expenditures	1,994,442	5,730,014
Distributions declared (1)	4,014,628	8,356,386

(1)The Fund declared a special distribution of $0.16 per Fund unit or $1.7 million in the month of December 2004.

Currently the Fund has an $8.0 million operating line to fund working capital requirements of which $5.2 million was unused at December 31, 2004.

Capital Resources

Investing

During the period ended December 31, 2004 the Fund spent $11.9 million on capital assets compared to $2.7 million for the year ended November 30, 2003. The main reason for the additional capital spending was the increase in the number of hydrovac units added to the fleet. During the thirteen months ended December 31, 2004 the Fund built 34 new hydrovac units, compared to eight for the year ended November 30, 2003. Included in the capital expenditure figure for the thirteen months ended December 31, 2004 is a maintenance capital expenditure amount of $2.7 million. This amount is defined as the amount incurred during a period to keep the hydrovac fleet at the same number of units, which was seven for the thirteen month period ended December 31, 2004, plus any other capital expenditures required to maintain the existing business.

Financing

During the period ended December 31, 2004 Badger repaid $5.2 million of long-term debt. Included in this amount was approximately $0.8 million which did not have to be paid during the period. The balance of principal payments was made pursuant to regularly scheduled repayments. As a result of these principal payments the Fund's long-term debt, including the current portion, was $2.4 million at December 31, 2004 compared to $7.6 million at November 30, 2003.

At December 31, 2004 the Fund had a long-term debt-to-equity ratio of 0.02 and a long-term debt-to-trailing cash flow from operations of 0.05. The Fund believes its healthy balance sheet and unutilized borrowing capacity, combined with cash generated from operations, will provide sufficient capital to fund its ongoing operations, pay for future capital expenditures and fund ongoing distributions to unitholders.

Contractual Obligations and Committed Capital Investment

The Fund intends to meet its contractual obligations through cash flow generated by operating activities. The Fund's contractual obligations for the next five years relating to repayment of long-term debt are as follows:

2005	$ 1,273,885
2006	108,768
2007	108,768
2008	108,768
2009	108,768
Thereafter	679,844
Total	$ 2,388,801

In addition to the contractual obligations above, as at December 31, 2004 the Fund is committed to certain capital expenditures totalling approximately $3.2 million. These capital expenditures will be financed with existing credit facilities and cash flow generated from operations.

Unitholders' Capita

Unitholders' capital increased by $0.6 million to $41.9 million at December 31, 2004. This was the result of proceeds received from the exercise of stock options prior to converting to a trust on March 31, 2004 and exchange rights exercised subsequent to the conversion.

In converting to a trust, Badger's common shares outstanding were converted to units on a 2:1 basis. Units outstanding at December 31, 2004 were 10,648,879.

At December 31, 2004 there were 17,663 exchange rights outstanding. These exchange rights may be exchanged for fund units at a price of $0.01 per unit.

Off-Balance Sheet Arrangements

At December 31, 2004 and November 30, 2003, the Fund had no off-balance sheet arrangements.

Transactions with Related Parties

Shea Nerland Calnan provides legal services to Badger at market rates. David Calnan, a Trustee and Corporate Secretary of the Fund, is a partner in the law firm of Shea Nerland Calnan and is involved in providing and managing Badger's legal services. The total cost of these legal services was $241,000 for the thirteen months ended December 31, 2004 and $76,000 for the year ended November 30, 2003.

Selected Quarterly Financial Information

	Quarter Ended (1)							
	2004				2003			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31 (2)**	Nov. 30	Aug. 31	May 31	Feb. 28
Revenues ($)	**20,488,378**	**20,133,108**	**15,488,043**	**22,587,177**	18,391,028	17,216,491	15,175,522	12,903,817
Net earnings (loss) ($)	**3,853,755**	**4,193,112**	**2,755,838**	**2,909,169**	1,884,246	1,684,627	1,057,045	(646,572)
Net earnings (loss) per unit – basic (3) ($)	**0.36**	**0.39**	**0.26**	**0.28**	0.19	0.17	0.10	(0.06)
Net earnings (loss) per unit – diluted (3) ($)	**0.36**	**0.39**	**0.26**	**0.27**	0.18	0.17	0.10	(0.06)

(1) As a result of converting to a trust the year-end changed from November 30, 2004 to December 31, 2004.

(2) The quarter ended March 31, 2004 represents a four-month period.

(3) For comparative purposes the weighted average shares outstanding for 2003 and March 31, 2004 have been converted to units on a 2:1 basis; therefore per unit calculations have been restated on this basis.

Fourth Quarter Highlights

- As a result of increased activity, revenue increased from $18.4 million to $20.5 million comparing the three months ended December 31, 2004 to the three months ended November 30, 2003.
- With the increase in revenues, net earnings increased by 105 percent for the quarter.
- The Fund added ten hydrovac units to the fleet and removed three from service.
- On December 20, 2004 Badger announced a special cash distribution of $0.16 per Fund unit. This special cash distribution was provided to unitholders due to Badger's strong financial position, solid historical cash flow generation and favourable business outlook.

Critical Accounting Estimates

Preparation of these consolidated financial statements require that management make assumptions regarding critical accounting estimates for certain amounts contained within the Fund's consolidated financial statements. If these critical accounting estimates and assumptions are wrong, they could have a material impact on the financial position and results of the Fund.

Management believes the only critical accounting estimate for the Fund is the estimated economic life of the hydrovac units. The Fund currently depreciates the hydrovac units over ten years based on current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectation.

Financial and Other Instruments

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate the fair value of these financial instruments due to their short-term maturities. Badger's credit risk from customers is minimized by its broad customer base and the diverse industries it serves. In the normal course of operations the Fund is exposed to movements in the United States' dollar exchange rates, relative to the Canadian dollar. Badger has United States' operations and purchases certain items in United States' dollars.

Badger does not utilize hedging instruments but chooses instead to be exposed to current United States' exchange rates as increases or decreases in exchange rates are not considered to have a significant effect on our business.

The floating interest rate profile of Badger's long-term debt exposes Badger to interest rate risk. Badger does not use hedging instruments to mitigate this risk. The carrying value of the long-term debt approximates fair value due to its floating interest rates.

Business Risks

The oil and natural gas sector accounts for a significant portion of the Fund's revenues. The petroleum service industry relies heavily on the volume of capital expenditures made by oil and natural gas explorers and producers and is also affected by certain adverse weather conditions. These spending decisions are based on several factors including, but not limited to, hydrocarbon prices, production levels of current reserves and access to capital - all of which can vary greatly. To minimize the impact of the oil and natural gas industry cycles, the Fund also focuses on generating revenue from the utility and general contracting market segments.

The Fund operates in a highly competitive environment for hydrovac services in Western Canada. In order to remain the leading provider of hydrovac services in this region, we continually enhance our safety and operational procedures to ensure that they meet or exceed customer expectations. We also have the in-house capabilities to continuously improve our daylighting units so that they

remain the most productive and efficient hydrovacs in the business.

In addition, Badger faces risks associated with doing business in the United States. The Fund has made a significant investment in the United States to develop the hydrovac market. To date the market for Badger's hydrovac service business remains mostly undeveloped. The growth rate of the United States market is not determinable.

Safety is one of the Fund's concerns. We have implemented programs to ensure our operations meet or exceed current hydrovac safety standards. The Fund also employs regional safety managers who are responsible for maintaining and developing the Fund's safety policies. In addition, these regional managers monitor the Fund's operations to ensure they are operating in compliance with such policies.

The Fund currently depreciates the hydrovac units over ten years, a policy that is based on our current knowledge and past experience. There is a certain amount of business risk that newer technology or some other unforeseen circumstance could lower this life expectation.

Today Badger has a very good employee base. Badger relies on its ability and the ability of its agents/franchisees to attract and retain key personnel necessary to maintain and grow our business.

Badger has established relationships with key suppliers. There can be no assurance that current sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Badger's ability to manufacture its hydrovac units may be impaired.

Due to a significant increase in insurance premiums, the Fund decided to self-insure against any physical damage it could incur on the hydrovac units. This decision will be re-evaluated periodically as circumstances change.

Outlook

Based on forecasts for continued strong activity in the oil and natural gas industry and a reasonable economy, plus weather conditions, Badger is optimistic it will be able to deliver positive results in 2005.

Management's Responsibility for Financial Reporting

The consolidated financial statements included in this annual report of Badger Income Fund for the thirteen month period ended December 31, 2004 are the responsibility of the management of the Fund and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with the Canadian Generally Accepted Accounting Principles, with financial information presented elsewhere in this annual report consistent with that in the financial statements.

Management has developed and maintains a comprehensive system of internal controls which provides assurance that transactions are recorded and executed in compliance with legislation and required authority, to ensure assets are properly safeguarded and that reliable financial records are maintained.

The independent chartered accounting firm of Ernst & Young LLP has been appointed by the unitholders of the Fund to examine the financial statements, and has expressed an opinion thereon. Their auditors' report is included with the financial statements. The Board of Directors has established an Audit Committee to review the financial statements with management and the auditors, and has reported to the Board of Directors thereon. On recommendation of the Audit Committee, the Board of Directors has approved the financial statements.

Tor Wilson
President and CEO
February 24, 2005

Greg Kelly, CA
Vice President Finance and CFO

Auditors' Report

To the Unitholders of Badger Income Fund

We have audited the consolidated balance sheets of Badger Income Fund as at December 31, 2004 and November 30, 2003 and the consolidated statements of earnings and accumulated earnings (deficit) and cash flows for the thirteen month period ended December 31, 2004 and the year ended November 30, 2003. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and November 30, 2003 and the results of its operations and its cash flows for the thirteen month period ended December 31, 2004 and the year ended November 30, 2003 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

February 24, 2005
Calgary, Canada

Consolidated Balance Sheets

As at	December 31, 2004	November 30, 2003
	$	$
ASSETS [notes 4 and 5]		
Current		
Cash	**529,017**	2,986,045
Accounts receivable	**18,361,558**	14,979,088
Inventories	**1,266,139**	1,297,954
Prepaid expenses	**457,554**	379,947
Future income taxes [note 8]	**2,065,283**	–
	22,679,551	19,643,034
Capital assets [note 3]	**45,071,873**	40,172,348
	67,751,424	59,815,382
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	**2,821,323**	–
Accounts payable and accrued liabilities	**8,711,230**	7,946,593
Income taxes payable	**82,837**	1,168,655
Distributions payable	**2,486,513**	–
Current portion of long term debt [note 5]	**1,273,885**	4,034,579
	15,375,788	13,149,827
Long term debt [note 5]	**1,114,916**	3,542,750
Future income taxes [note 8]	**5,266,503**	4,437,018
Commitments [note 12]		
Unitholders' equity		
Unitholders' capital [note 6]	41,940,517	41,308,849
Contributed surplus	**826,000**	826,000
Accumulated cash distributions [notes 6 and 9]	**(8,356,386)**	–
Accumulated earnings (deficit)	**11,584,086**	(3,449,062)
	45,994,217	38,685,787
	67,751,424	59,815,382

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings and Accumulated Earnings (Deficit)

	For the thirteen month period ended December 31, 2004	For the year ended November 30, 2003
	$	$
Revenues	**78,696,706**	63,686,858
Direct costs	**49,981,556**	43,387,652
Gross margin	**28,715,150**	20,299,206
Expenses		
Amortization of capital assets	**6,755,966**	6,048,314
Loss (gain) on sale of capital assets	**(24,193)**	178,431
Interest		
Long term	**272,021**	807,903
Current	**95,324**	136,779
Selling, general and administrative [note 13]	**6,061,972**	6,024,137
Trust reorganization costs [note 2]	**255,267**	–
Foreign exchange loss	**155,943**	540,197
	13,572,300	13,735,761
Earnings before income taxes	**15,142,850**	6,563,445
Income taxes [note 8]		
Current	**1,345,500**	1,279,089
Future	**85,476**	1,305,010
	1,430,976	2,584,099
Net earnings for the period	**13,711,874**	3,979,346
Accumulated earnings (deficit), beginning of period	**(3,449,062)**	(7,428,408)
Trust reorganization adjustment [note 2]	**1,321,274**	–
Accumulated earnings (deficit), end of period	**11,584,086**	(3,449,062)
Net earnings per unit [note 7]		
Basic	**1.31**	0.40
Diluted	**1.30**	0.39

See accompanying notes

Consolidated Statements of Cash Flows

	For the thirteen month period ended December 31, 2004	For the year ended November 30, 2003
	$	$
OPERATING ACTIVITIES		
Net earnings for the period	**13,711,874**	3,979,346
Non-cash items		
Amortization of capital assets	**6,755,966**	6,048,314
Future income taxes	**85,476**	1,305,010
Loss (gain) on sale of capital assets	**(24,193)**	178,431
Foreign exchange loss	**155,943**	540,197
Cash flow from operations	**20,685,066**	12,051,298
Net change in non-cash working capital	**(3,905,386)**	638,963
	16,779,680	12,690,261
FINANCING ACTIVITIES		
Proceeds from units/shares issued, net of issue costs	**631,668**	59,666
Repayment of long term debt	**(5,188,528)**	(6,459,270)
Increase (decrease) in bank indebtedness	**2,821,323**	(1,787,726)
Distributions to unitholders	**(5,869,873)**	–
	(7,605,410)	(8,187,330)
INVESTING ACTIVITIES		
Purchase of capital assets	**(11,911,973)**	(2,744,795)
Proceeds on disposal of capital assets	**280,675**	507,420
	(11,631,298)	(2,237,375)
Increase (decrease) in cash during the period	**(2,457,028)**	2,265,556
Cash, beginning of period	**2,986,045**	720,489
Cash, end of period	**529,017**	2,986,045
Interest paid	**367,345**	944,682
Income taxes paid	**1,982,051**	130,074

See accompanying notes

Notes to the Consolidated Financial Statements

Summary of Significant Accounting Policies

Basis of Presentation

The Fund was established by a Deed of Trust dated February 17, 2004. Pursuant to the terms of the Plan of Arrangement, the Fund acquired all of the common shares of Badger Daylighting Inc. on March 31, 2004. Prior to the Plan of Arrangement the consolidated financial statements include the accounts of Badger Daylighting Inc. and its subsidiaries. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Fund and its subsidiaries. For reporting purposes the Fund is considered the continuing entity of Badger Daylighting Inc. The consolidated financial statements, commencing April 1, 2004, follow the continuity-of-interest basis of accounting as if the Fund had always been a Fund. This basis is intended to provide unitholders with meaningful and comparative financial information.

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles which, in the case of the Fund conform with United States generally accepted accounting principles in all material respects. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Fund and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are valued at the lower of cost and net realizable value, cost being defined to include laid-down cost for materials and actual cost for direct labour on a weighted average basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided on a straight-line basis to recognize the cost less estimated salvage value of the capital assets over the estimated useful lives as follows:

Land improvements	10%
Buildings	5%
Shoring equipment	10%
Small tools	10%
Shop and office equipment	10%
Trucks and trailers	7% – 10%
Leasehold improvements	20%
Computers	25%

Amortization of equipment under construction is not recorded until such time as the construction is completed and the assets have been put to use.

Although management believes its estimates of the useful lives of the Fund's capital assets are reasonable, it is possible that another estimate may be made or that management's estimate may change in the future, which could result in changes to the rates. Management bases its estimate of the useful life of equipment on expected utilization, technological change and effectiveness of maintenance programs.

Income Taxes

The Fund follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences - the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis and for the carry forward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

Revenue Recognition

The Fund recognizes revenue from daylighting services when the services are provided. Truck placement fees are recognized when the truck is delivered.

Net Earnings Per Unit

Basic net earnings per unit was calculated on the basis of the weighted average number of units outstanding for the period.

Diluted net earnings per unit is calculated by adding the weighted average number of units outstanding during the period to the additional units that would have been outstanding if potentially dilutive units had been issued, using the treasury stock method.

Long Term Incentive Plan

Effective March 31, 2004, the Fund established a Long Term Incentive Plan (the "Incentive Plan") to replace the stock option plan. Under the Incentive Plan, the Board of Directors of the Fund may issue units to participants in the plan of up to 50% of any performance bonus payable. The units from the Incentive Plan will be issued at market price and be recorded as compensation expense. The Fund has reserved 200,000 units for issuance under the Incentive Plan. No units were issued under the Incentive Plan from March 31, 2004 to December 31, 2004.

Foreign Currency Translation

The subsidiaries in the U.S. have been accounted for as integrated foreign operations and have been translated using the temporal method.

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rates for the fiscal period. Exchange gains or losses arising on translation are included in the consolidated statements of earnings.

Reorganization

On March 24, 2004 the shareholders and optionholders of Badger Daylighting Inc. approved a Plan of Arrangement under section 193 of the Business Corporations Act (Alberta). The purpose of the Arrangement was to convert Badger Daylighting Inc. from a corporate entity concentrating on growth through reinvestment of cash flow to a growth-oriented trust entity, which will distribute a portion of cash flow to unitholders. The Plan of Arrangement took effect March 31, 2004.

Under the Plan of Arrangement the Fund issued units in exchange for all of the shares of Badger on a 1:2 basis. Prior to the exchange, Badger had 20,830,945 shares outstanding and immediately subsequent to the exchange, Badger Income Fund had 10,415,475 units outstanding.

As a result of the conversion to a trust and the related reorganization future income taxes were reduced by $1,321,274 with the gain credited to opening accumulated earnings.

Associated with the reorganization the Fund incurred costs of $255,267.

Capital Assets

	December 31, 2004		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	**919,037**	**–**	**919,037**
Land improvements	**366,643**	**260,892**	**105,751**
Buildings	**3,395,180**	**1,239,391**	**2,155,789**
Equipment under construction	**577,197**	**–**	**577,197**
Shoring equipment	**2,203,452**	**898,062**	**1,305,390**
Small tools	**39,264**	**31,254**	**8,010**
Shop and office equipment	**1,289,414**	**832,460**	**456,954**
Trucks and trailers	**67,393,303**	**27,935,616**	**39,457,687**
Leasehold improvements	**135,048**	**130,961**	**4,087**
Computers	**680,564**	**598,593**	**81,971**
	76,999,102	**31,927,229**	**45,071,873**

	November 30, 2003		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	919,037	–	919,037
Land improvements	366,643	221,177	145,466
Buildings	3,375,720	1,056,277	2,319,443
Equipment under construction	137,794	–	137,794
Shoring equipment	2,248,072	724,171	1,523,901
Small tools	39,264	27,003	12,261
Shop and office equipment	1,222,839	706,660	516,179
Trucks and trailers	57,553,589	23,073,283	34,480,306
Leasehold improvements	135,048	127,485	7,563
Computers	665,007	554,609	110,398
	66,663,013	26,490,665	40,172,348

Bank Credit Facilities

The Fund has bank credit facilities available up to $8,000,000 bearing interest at the bank's prime lending rate (December 31, 2004 – 4.25%; November 30, 2003 – 4.5%) or the bankers' acceptance rate plus 1.35% (December 31, 2004 – 3.93%; November 30, 2003 – 4.12%). A general assignment of book debts, inventories and corporate guarantees of companies within the group have been pledged as collateral for the bank credit facilities. The balance drawn on this facility as at December 31, 2004 was $2,821,323 (November 30, 2003 – Nil).

As at December 31, 2004 the Fund has issued letters of credit in the amount of approximately $258,000.

Long Term Debt

	December 31, 2004 $	November 30, 2003 $
Loan payable, repayable in monthly principal and interest payments of $108,063 until November, 2004, bearing interest at 8.59% and collateralized by chattel mortgages on certain capital assets.	–	1,242,223
Loan payable, repayable in monthly principal and interest payments of $164,943 until March, 2005, bearing interest at the one month bankers' acceptance rate plus 3.15% (December 31, 2004 – 5.73%; November 30, 2003 – 5.92%) and collateralized by chattel mortgages on certain capital assets.	**414,861**	2,466,890
Loan payable, repayable in monthly principal and interest payments of $66,419 until December, 2005, bearing interest at the one month bankers' acceptance rate plus 3.15% (December 31, 2004 – 5.73%; November 30, 2003 – 5.92%) and collateralized by chattel mortgages on certain capital assets.	**750,256**	2,526,696
Commercial mortgage on land and building, repayable in monthly principal payments of $9,064 plus interest until February 2016, bearing interest at bank prime plus 0.75% (December 31, 2004 – 5.0%; November 30, 2003 – 5.25%).	**1,223,684**	1,341,520
	2,388,801	7,577,329
Current portion	**1,273,885**	4,034,579
	1,114,916	3,542,750

Principal repayments on the above loans in each of the next five years is as follows:

	$
2005	1,273,885
2006	108,768
2007	108,768
2008	108,768
2009	108,768
Remainder	679,844
	2,388,801

The mortgage and loans payable are collateralized by a general security interest over the Fund's assets, property and undertaking, present and future.

Unitholders' Capital

Authorized

Unlimited number of voting Fund units

Issued and outstanding:	Units/Shares	Amount
		$
Shares issued at November 30, 2002	20,107,945	41,249,183
Exercise of options	63,333	59,666
Shares issued at November 30, 2003	20,171,278	41,308,849
Exercise of options	659,667	629,334
Shares issued at March 31, 2004	20,830,945	41,938,183
Shares cancelled under the Plan of Arrangement [note 2]	(20,830,945)	(41,938,183)
Units issued under the Plan of Arrangement [note 2]	10,415,475	41,938,183
Rights exercised	233,404	2,334
Units outstanding as at December 31, 2004	10,648,879	41,940,517

The Fund declared distributions in 2004 of $0.067 per unit for each of the months of April, May, June, July; $0.07 per unit for each of the months of August, September, October; $0.0735 for the month of November; $0.2335 for the month of December. From the commencement of converting to a trust effective March 31, 2004 to December 31, 2004 a total of $0.785 per unit or $8,356,386 has been declared as distributions to unitholders.

Options

The Fund's stock option plan was replaced by a Long Term Incentive Plan in 2004 as follows:

	December 31, 2004		November 30, 2003	
	Shares	Weighted Average Exercise Price $	Shares	Weighted Average Exercise Price $
Outstanding at beginning of period	**1,660,667**	**2.02**	1,453,000	2.39
Granted during period	**–**	**–**	515,000	0.95
Exercised during period	**(659,667)**	**0.94**	(63,333)	0.94
Forfeited during period	**(266,000)**	**5.90**	(244,000)	2.26
Converted to exchange rights	**(735,000)**	**1.57**	–	–
Outstanding at period end	**–**	**–**	1,660,667	2.02
Options exercisable at period end	**–**	**–**	946,500	2.68

Exchange Rights

Pursuant to the Plan of Arrangement any options outstanding and not exercised prior to March 31, 2004 were cancelled in exchange for exchange rights exercisable at a purchase price of $0.01 per unit. There were 735,000 options cancelled and 251,067 exchange rights issued on March 31, 2004. As at December 31, 2004 the following exchange rights are outstanding:

	December 31, 2004		November 30, 2003	
		Weighted Average Exercise Price $		Weighted Average Exercise Price $
Outstanding at beginning of period	**–**	**–**	–	–
Converted from options	**251,067**	**0.01**	–	–
Exercised during period	**(233,404)**	**0.01**	–	–
Outstanding at period end	**17,663**	**0.01**	–	–

Net Earnings Per Unit

Basic per unit calculations for the thirteen month period ended December 31, 2004 and the year ended November 30, 2003 were based on the weighted average number of units outstanding of 10,499,857 and 10,063,660 respectively. Diluted per unit calculations for the thirteen month period ended December 31, 2004 and year ended November 30, 2003 were based on the weighted average number of units outstanding of 10,517,520 and 10,199,249 respectively.

The per unit and number of units/shares have been retroactively restated to reflect the 2:1 conversion of shares into units effective March 31, 2004.

Income Taxes

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

	Thirteen months ended December 31, 2004	Year ended November 30, 2003
	$	$
Earnings before income taxes	**15,142,850**	6,563,445
Statutory income tax rate	**35.00%**	37.07%
Expected income tax provision	**5,299,998**	2,433,069
Add (deduct):		
Fund distributions	**(2,924,735)**	–
Benefit of U.S. current year losses not recognized	**–**	190,345
Utilization of U.S. prior year losses not previously recognized	**(977,734)**	–
Other	**33,447**	(39,315)
	1,430,976	2,584,099

The future income tax assets and liabilities are comprised of the tax effect of the following temporary differences:

	December 31, 2004 $	November 30, 2003 $
Future income tax assets:		
Non-capital losses	**8,302,648**	7,919,336
Investment in shares	**223,278**	229,824
	8,525,926	8,149,160
Valuation allowance	**6,460,643**	8,149,160
	2,065,283	–
Future income tax liabilities:		
Capital assets	**3,228,905**	4,437,018
Partnership income	**2,037,598**	–
	5,266,503	4,437,018

As at December 31, 2004, one of the Fund's U.S. subsidiaries had net operating losses carried forward of approximately U.S.$14,048,000 which expire as follows:

	December 31 2004 $
2019	2,427,000
2020	4,757,000
2021	3,402,000
2022	3,103,000
2023	359,000
	14,048,000

Reconciliation of Unitholder Distributions Declared and Paid

	Thirteen months ended December 31, 2004 $
Cash flow from operations	20,685,066
Proceeds on disposal of capital assets	280,675
Required principal repayments of long term debt (1)	(4,374,579)
Maintenance capital expenditures (2)	(2,729,950)
Cash available for growth capital expenditures and distributions	13,861,212
Unitholder distributions declared ($) (3)	8,356,386
Per unit	0.7850
Unitholder distributions paid ($)	5,869,873
Per unit	0.5515

(1) Maintenance capital expenditures is defined as the amount incurred during the period to keep the daylighting fleet at the same number of units, plus any other capital expenditures required to maintain the existing business. It also includes any costs incurred on a daylighting unit to enhance its operational life.

(2) Required debt repayments are defined as the amount of debt which had to be repaid during the period pursuant to regularly scheduled debt repayments. Additional debt repayments represent accelerated payments of debt that were not required to be made during the period.

(3) Monthly unitholder distributions have been declared from the inception of converting to a trust in April 2004 to December 31, 2004.

Geographic Information

Geographically, the Fund operates in Canada and the United States (U.S.). The following is selected information for the thirteen months ended December 31, 2004 and the year ended November 30, 2003 based on these geographic segments.

	December 31, 2004			November 30, 2003		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
	$	**$**	**$**	$	$	$
Revenues	**61,709,316**	**16,987,390**	**78,696,706**	52,223,394	11,463,464	63,686,858
Direct costs	**39,256,029**	**10,725,527**	**49,981,556**	35,357,605	8,030,047	43,387,652
Selling, general and administrative	**4,157,283**	**1,904,689**	**6,061,972**	3,768,100	2,256,037	6,024,137
Amortization of capital assets	**5,355,428**	**1,400,538**	**6,755,966**	4,918,931	1,129,383	6,048,314
Earnings (loss) before income taxes	**12,349,325**	**2,793,525**	**15,142,850**	7,077,891	(514,446)	6,563,445
Capital assets	**36,963,712**	**8,108,161**	**45,071,873**	33,635,672	6,536,676	40,172,348
Total assets	**55,615,342**	**12,136,082**	**67,751,424**	49,460,254	10,355,128	59,815,382
Capital expenditures	**9,962,855**	**1,949,118**	**11,911,973**	2,744,795	–	2,744,795

Financial Instruments

a) Fair value

The carrying value of cash, accounts receivable, accounts payable, distributions payable, bank indebtedness and long term debt approximate their fair value.

b) Foreign currency risk

The Fund is exposed to foreign currency fluctuations in relation to its U.S. operations; however, management believes this exposure is not material to its overall operations.

c) Interest rate risk

The Fund's debt is at floating rates, and as a result, the Fund is exposed to changes in interest rates. The Fund's earnings and the required cash flows to service the debt will fluctuate as a result of changes in interest rates.

d) Credit risk

The Fund is exposed to normal credit risks of its customers that exist within the petroleum and utility industries.

12 Commitments

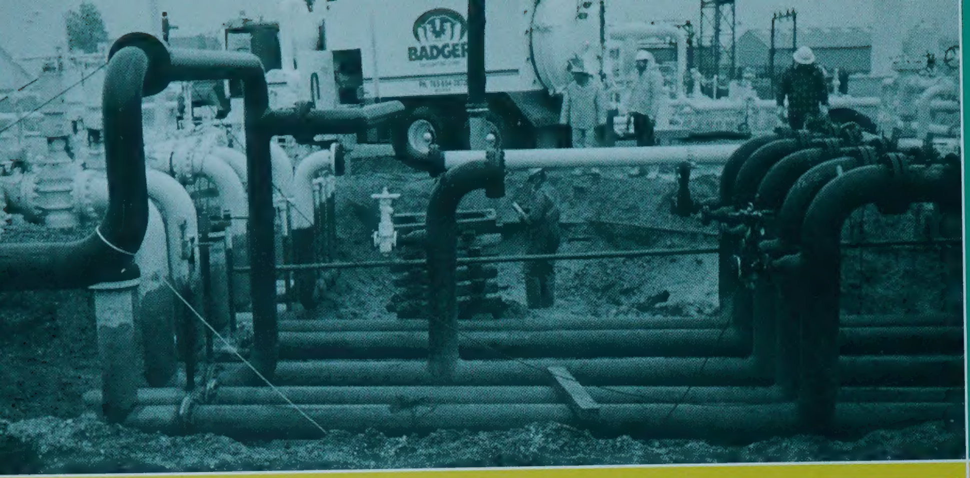
At December 31, 2004 the Fund has commitments to purchase approximately $3,240,000 worth of capital assets and various parts and materials.

13 Related Party Transactions

During the period ended December 31, 2004, the Fund was charged $241,209 (2003 – $76,492) for professional fees by a partnership in which a director of the Fund is a partner.

14 Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation.



Corporate Information

Directors

George Watson
President & CEO
Critical Control Solutions Inc.

David Calnan LL.B,
Partner, Shea Nerland Calnan

Martin Margolis, CA
Chartered Accountant

Garry Mihaichuck
Sr. Vice President Business Development
Mancal Corporation

Glen D. Roane
Corporate Director

Tor Wilson
President & CEO

Officers and Management

Tor Wilson
President & CEO

Greg Kelly, CA
Vice President Finance & CFO

David Calnan, LL.B
Corporate Secretary

Auditors

Ernst & Young LLP
Chartered Accountants
Calgary, Alberta

Bankers

Toronto Dominion Bank
Calgary, Alberta

Registrar and Transfer Agent

Computershare Investor Services
Calgary, Alberta

Solicitors

Shea Nerland Calnan
Calgary, Alberta

Bose McKinney & Evans LLP
Indianapolis, Indiana

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol, effective April 5, 2004
"BAD.UN"

Head Office
Suite 2820
715-5th Avenue SW
Calgary, Alberta
Canada T2P 2X6
T: 403-264-8500
F: 403-228-9773
www.badgerinc.com

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Printed in Canada.

BADGER
INCOME FUND

Suite 2820, 715-5th Avenue SW
Calgary, Alberta, Canada T2P 2X6
T: (403) 264-8500
F: (403) 228-9773
www.badgerinc.com